

Wisdom in a wide horizon

Investment strategies should offer protection from what the uncertain conditions in SA may bring about, writes **Pedro van Gaalen**

Offshore diversification has always been a prudent approach for local investors to de-risk their portfolios, but the pace and scale of capital flight from SA since 2018 has been unprecedented.

As the reality dawns that President Cyril Ramaphosa's administration faces a complex and difficult task in balancing politics with the tough economic reforms needed to stimulate growth, both local and international investors are shunning rand-based assets, even as 10-year yields on SA bonds topped 8.4% in July.

According to Bloomberg data, overseas investors sold a net \$4.8bn of SA equities and bonds in 2019, which is the most on a year-to-date basis in data going back to 1998. Outflows, particularly from fixed-income securities, accelerated from June as ratings agencies and banks turned more bearish about SA's fiscal outlook.

The picture is similar among local institutional property investors.

A recent research report by US-based Real Capital Analytics states: "The gulf between investment activity in SA and overseas spending by SA investors has never been greater. These players invested about four times as much internationally than was spent



Magnus Heystek ... look offshore

in their home market in 2018."

Magnus Heystek, investment strategist and director at Brenthurst Wealth Management, affirms that more investors are looking offshore to offset the below-inflation returns offered in SA now.

"The collapse of the global commodity boom roughly coincided with the nine years of misrule, corruption and state capture under former president Jacob Zuma.

"Every SA investor is now paying the price in the form of below-inflation returns on residential property and JSE-linked investments. Most of the retirement funds have also not beaten inflation over one, three and five years."

And proposed socialist and economic policies from the

ANC continue to erode investor confidence and heap pressure on the rand, adds Heystek.

"As a consequence, these factors have severely affected the personal wealth of SA investors.

"Without direct offshore assets in their investment portfolios, most investors will be worse off, which necessitates adjustments to investment strategies to offer protection [from] the long-term consequences of these underlying changes."

Local investors have numerous options to increase offshore exposure and obtain access to a broader universe of investments.

Chris Potgieter, CEO of Old Mutual Wealth Private Client Securities, states that SA investors should ensure that their portfolios include exposure to global equities.

"The local economy contributes barely 1% to global GDP and the companies listed on the JSE represent a mere fraction of what is available globally. Offshore investments, therefore, allow investors to diversify their portfolios across geographies, sectors, companies and currencies.

"If local investors have not yet diversified offshore and have long-term capital growth requirements, the best time to put a plan into action and

invest offshore is immediately," Potgieter says.

There are many unit trust funds available locally that provide offshore exposure, but Potgieter affirms that an increasing number of investors are choosing to invest directly in global companies listed offshore. "Investors can get access to global shares, exchange traded funds (ETFs) and other collective investments through SA stockbrokers and private client portfolio managers.

"A number of share-trading platforms are available that enable investors to buy shares and ETFs on any of the major global exchanges."

Investors can decide whether they want to acquire these offshore investments using their own capital from their annual offshore discretionary (R1m) and investment (R10m) allowances, or by using the rand to buy shares through an asset swap. In the latter instance, a local financial institution uses rands to buy the offshore investments on behalf of the investor in the foreign currency," explains Potgieter.

In this regard, Nesan Nair, portfolio manager at Sasfin, suggests that investors should consider the implications of leveraging rand-denominated or multi-asset funds to gain offshore exposure.

"These funds were the only ways to get exposure in the past, but with the relaxation of exchange controls the direct option has become more desirable. We prefer to stay away from using [rand-denominated or multi-asset] funds for direct private-client investments as they are more expensive and less tax-efficient, and have limited redemption flexibility than going offshore directly." ●

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